

Sky TV

NZ\$157m Equity Raise

MATT HENRY CFA

matthew.henry@forsythbarr.co.nz
+64 9 368 0115

ASHTON OLDS

ashton.olds@forsythbarr.co.nz
+64 9 368 0127

RESTRICTED

Sky TV (SKT) has announced that it is undertaking an NZ\$157m equity raise to pay down debt and provide liquidity to support growth ambitions. The equity raise, at an offer price of NZ\$0.12 per share, consists of (1) a fully underwritten NZ\$9m institutional placement, and (2) a fully underwritten NZ\$148m pro-rata, non-renounceable, accelerated entitlement offer at a ratio of 2.83 to 1. SKT provided a trading update, announced it is launching a broadband product, and is aiming to release its renewed digital streaming platform in July 2020. Our rating is RESTRICTED.

NZX Code	SKT	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$0.33	NPAT* (NZ\$m)	97.0	n/a	n/a	n/a	EV/EBITDA	1.5	n/a	n/a	n/a
Target price	n/a	EPS* (NZc)	24.9	n/a	n/a	n/a	EV/EBIT	2.4	n/a	n/a	n/a
Risk rating	n/a	EPS growth* (%)	-18.5	n/a	n/a	n/a	PE	1.3	n/a	n/a	n/a
Issued shares	436.0m	DPS (NZc)	7.5	n/a	n/a	n/a	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$144m	Imputation (%)	100	n/a	n/a	n/a	Cash div yld (%)	22.7	n/a	n/a	n/a
Avg daily turnover	954.8k (NZ\$736k)	*Based on normalised profits					Gross div yld (%)	31.6	n/a	n/a	n/a

Strengthening the balance sheet

SKT is raising NZ\$157m of capital to repay debt (ahead of its NZ\$100m bond maturity in March 2021), withstand near-term COVID-19 headwinds, and provide funds to execute on future growth opportunities. Additionally, SKT has secured ongoing support from its banking syndicate, allowing funding limits to be maintained at existing levels, combined with increased covenant flexibility through to July 2023. SKT intends to reinvest any free cash flow into the business over the next two years, and will re-evaluate its dividend policy in FY22.

Revised guidance

SKT expects the continued restrictions on live sport will suppress advertising and commercial revenues, which will, in part, be offset by cost saving measures and temporary reductions in sports programming costs. SKT has updated guidance (previous guidance was suspended in March). The net impact is a c.-NZ\$15m revision to EBITDA vs. pre COVID-19 FY20 expectations.

Figure 1. SKT's revised guidance

	FY19A	FY20 revised guidance	FY21 scenario
Revenue	795	730-750	610-640
EBITDA	267	155-175	100-130
NPAT	66	20-25	5-15
CAPEX	76	55-65	40-50

Source: Company reports

Forsyth Barr Limited is a Joint Lead Manager and Forsyth Barr Group Limited is an Underwriter of the Institutional Placement and Entitlement Offer and will receive fees in connection with those roles.

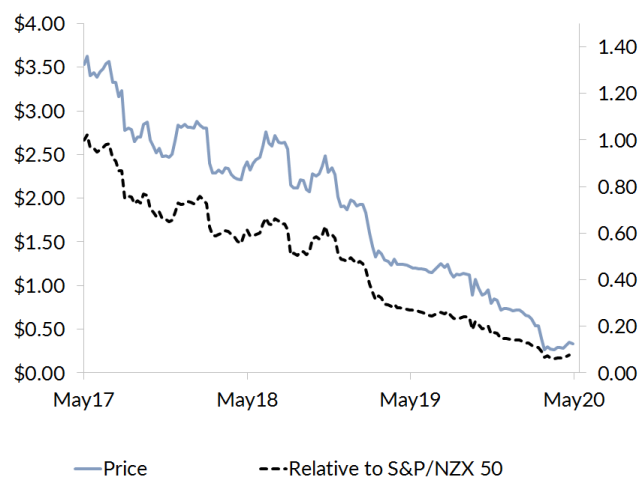
Sky Network Television Ltd (SKT)

Priced as at 21 May 2020 (NZ\$)

0.33

12-month target price (NZ\$)*	n/a					Spot valuations (NZ\$)					
Expected share price return	n/a					1. DCF	n/a				
Net dividend yield	n/a										
Estimated 12-month return	n/a										
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate	n/a					Total firm value	n/a				
Equity beta	n/a					(Net debt)/cash	n/a				
WACC	n/a					Less: Capitalised operating leases	n/a				
Terminal growth	n/a					Value of equity	n/a				
Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	852.7	795.1	n/a	n/a	n/a	EV/EBITDA (x)	1.4	1.5	n/a	n/a	n/a
Normalised EBITDA	285.8	240.9	n/a	n/a	n/a	EV/EBIT (x)	2.2	2.4	n/a	n/a	n/a
Depreciation and amortisation	(102.4)	(92.9)	n/a	n/a	n/a	PE (x)	1.1	1.3	n/a	n/a	n/a
Normalised EBIT	183.4	147.9	n/a	n/a	n/a	Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Net interest	(17.5)	(12.4)	n/a	n/a	n/a	Free cash flow yield (%)	108.0	70.7	n/a	n/a	n/a
Associate income	0	0	n/a	n/a	n/a	Net dividend yield (%)	45.5	22.7	n/a	n/a	n/a
Tax	(46.6)	(24.5)	n/a	n/a	n/a	Gross dividend yield (%)	63.1	31.6	n/a	n/a	n/a
Minority interests	0.3	0.3	n/a	n/a	n/a						
Normalised NPAT	119.0	97.0	n/a	n/a	n/a	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	(360.0)	(718.9)	n/a	n/a	n/a	Interest cover EBIT (x)	10.5	11.9	n/a	n/a	n/a
Reported NPAT	(241.0)	(608.2)	n/a	n/a	n/a	Interest cover EBITDA (x)	16.3	19.4	n/a	n/a	n/a
Normalised EPS (cps)	30.6	24.9	n/a	n/a	n/a	Net debt/ND+E (%)	18.2	34.9	n/a	n/a	n/a
DPS (cps)	15.0	7.5	n/a	n/a	n/a	Net debt/EBITDA (x)	0.8	0.8	n/a	n/a	n/a
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	-4.6	-6.8	n/a	n/a	n/a	Return on assets (%)	12.2	19.2	n/a	n/a	n/a
EBITDA (%)	-2.9	-15.7	n/a	n/a	n/a	Return on equity (%)	11.6	27.7	n/a	n/a	n/a
EBIT (%)	-3.1	-19.3	n/a	n/a	n/a	Return on funds employed (%)	8.8	13.3	n/a	n/a	n/a
Normalised NPAT (%)	0.7	-18.5	n/a	n/a	n/a	EBITDA margin (%)	33.5	30.3	n/a	n/a	n/a
Normalised EPS (%)	0.7	-18.5	n/a	n/a	n/a	EBIT margin (%)	21.5	18.6	n/a	n/a	n/a
Ordinary DPS (%)	-45.5	-50.0	n/a	n/a	n/a	Capex to sales (%)	6.8	9.6	n/a	n/a	n/a
						Capex to depreciation (%)	72	108	n/a	n/a	n/a
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	n/a	n/a	n/a
EBITDA	285.8	240.9	n/a	n/a	n/a	Pay-out ratio (%)	49	30	n/a	n/a	n/a
Working capital change	(8.3)	(11.5)	n/a	n/a	n/a						
Interest & tax paid	(64.8)	(48.5)	n/a	n/a	n/a	Operating Performance	2018A	2019A	2020E	2021E	2022E
Other	0.8	(2.8)	n/a	n/a	n/a	Revenue					
Operating cash flow	213.6	178.0	n/a	n/a	n/a	Subscriptions	778.9	728.4	n/a	n/a	n/a
Capital expenditure	(58.2)	(76.3)	n/a	n/a	n/a	Advertising	57.0	51.8	n/a	n/a	n/a
(Acquisitions)/divestments	0.0	0.2	n/a	n/a	n/a	Installation & other revenue	16.7	15.0	n/a	n/a	n/a
Other	1.8	7.6	n/a	n/a	n/a	Total revenue	852.7	795.1	n/a	n/a	n/a
Funding available/(required)	157.2	109.5	n/a	n/a	n/a						
Dividends paid	(88.9)	(66.9)	n/a	n/a	n/a	Operating costs					
Equity raised/(returned)	0	0	n/a	n/a	n/a	Programming	(328.1)	(320.8)	n/a	n/a	n/a
(Increase)/decrease in net debt	68.3	42.6	n/a	n/a	n/a	Subscriber related costs	(95.6)	(88.3)	n/a	n/a	n/a
						Broadcasting & infrastructure	(92.6)	(95.8)	n/a	n/a	n/a
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Other costs	(50.7)	(49.3)	n/a	n/a	n/a
Working capital	(45)	(39)	n/a	n/a	n/a	Total operating costs	(566.9)	(554.3)	n/a	n/a	n/a
Fixed assets	210	163	n/a	n/a	n/a						
Intangibles	1,125	446	n/a	n/a	n/a	Reported EBITDA	285.8	240.9	n/a	n/a	n/a
Right of use asset	0	0	n/a	n/a	n/a						
Other assets	23	7	n/a	n/a	n/a						
Total funds employed	1,312	577	n/a	n/a	n/a						
Net debt/(cash)	228	188	n/a	n/a	n/a						
Lease liability	0	0	n/a	n/a	n/a						
Other liabilities	57	37	n/a	n/a	n/a						
Shareholder's funds	1,025	350	n/a	n/a	n/a						
Minority interests	1	1	n/a	n/a	n/a						
Total funding sources	1,312	577	n/a	n/a	n/a						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Figure 2. Price performance


Source: Forsyth Barr analysis

Figure 3. Substantial shareholders

Shareholder	Latest Holding
Jupiter Asset Management	8.8%
Kiltearn Partners	8.0%
ACC	6.1%
RugbyPass Investors, LLC	6.1%
UBS	5.7%
Black Crane Asia Pacific Opportunities Fund	5.1%

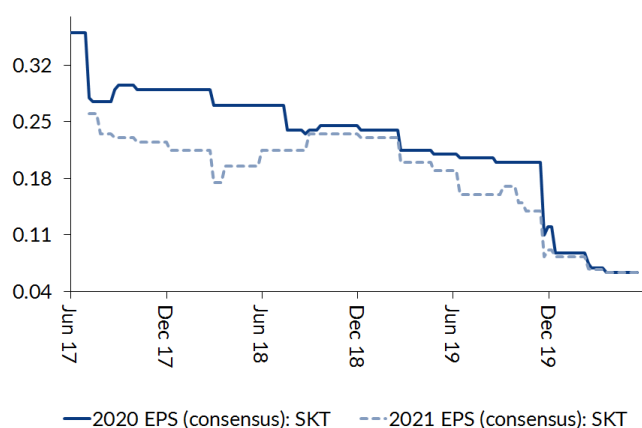
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 4. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect SKT's balance date - June)										
			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
Sky TV	SKT NZ	NZ\$0.33	NZ\$144	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spark NZ *	SPK NZ	NZ\$4.55	NZ\$8,359	20.7x	20.0x	8.8x	8.7x	15.4x	15.1x	5.5%
NZME *	NZM NZ	NZ\$0.25	NZ\$48	3.0x	3.3x	1.9x	2.0x	3.8x	4.3x	0.0%
SEVEN GROUP HOLDINGS	SVW AT	A\$14.18	A\$4,812	11.1x	11.1x	8.1x	8.0x	10.6x	10.6x	2.9%
ITV PLC	ITV LN	£0.70	£2,815	6.9x	7.2x	6.3x	6.5x	8.3x	9.0x	5.6%
DISH NETWORK CORP-A	DISH US	US\$24.71	US\$12,952	10.3x	12.6x	9.6x	9.9x	13.4x	14.1x	0.0%
LIBERTY GLOBAL PLC-A	LBTYA US	US\$21.83	US\$13,046	<0x	<0x	7.5x	7.5x	38.2x	30.6x	0.0%
ASTRO MALAYSIA HOLDINGS BHD	ASTRO MK	RM0.96	RM5,006	7.9x	8.5x	4.2x	4.8x	7.2x	7.7x	8.0%
Compco Average:				10.0x	10.5x	6.6x	6.8x	13.8x	13.1x	3.1%
EV = Current Market Cap + Actual Net Debt				SKT Relative:	n/a	n/a	n/a	n/a	n/a	n/a

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (SKT) companies fiscal year end

Figure 5. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Analyst certification: The research analyst(s) primarily responsible for the preparation and content of this publication ("**Analysts**") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

Analyst holdings: The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

Ratings distributions: As at 20 May 2020, Forsyth Barr's research ratings were distributed as follows:

OUTPERFORM	NEUTRAL	UNDERPERFORM
49.0%	36.7%	14.3%

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

Disclosure: Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

Investment banking engagements: Other than confidential engagements, Forsyth Barr has within the past 12 months been engaged to provide investment banking services to the following issuers that are the subject of this publication: SKT SPK

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

Disclaimer: This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.